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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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In Spite Of . . .

One of the most welcome developments accompanying the current economic expansion is the relatively low rate of inflation. Over the past 12 months, retail prices have advanced by only 4.2 percent—a small rise, in view of the earlier strength in business activity and the continuing stream of Federal budget deficits. But now, hard on the heels of predictions of deflation voiced last summer by many forecasters, cries of a newly rekindled inflation spiral are emerging, fueled by August's 0.5 percent month-over-month rise in the Consumer Price Index.

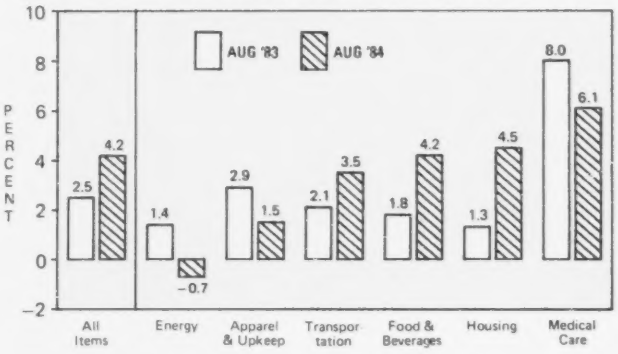
To be sure, the rate of inflation has picked up during this past year from the 2½ percent pace posted in the year ending in August, 1983 (see chart). This has occurred despite the dampening effects of lower energy prices and the strong dollar which has held down the cost of imported goods. But while August's rise—the largest since last April—was broad-based, some of the biggest contributors to higher prices are expected to be only short-lived. What is more, there is little that should provoke a sharp acceleration in inflation over the near term, considering the recent slowing in the pace of business.

Food prices are probably of greatest concern to most people since more than one-fifth of the average consumer's budget is devoted to purchases of food and beverages. Although this component was the single largest contributor to August's uptick in inflation, it reflected volatility in farm prices. Retail food prices were driven up by a 13 percent rise in vegetable prices, resulting from temporary shortages of lettuce and tomatoes. But a look at prices farmers received in September for their raw agricultural products should allay fears that these price increases will continue. Not only did overall prices drop nearly three percent, month-over-month (not adjusted for seasonal variation), but precisely those categories which showed the biggest advances in August, posted the steepest declines in September. For example, more than half of August's rise in vegetable prices was erased in September, with the price of tomatoes falling 25 percent, month-over-month, returning back down to July's level.

. . . Rising Food And Energy Costs . . .

While vegetable prices should not be a problem in the coming months, meat prices are expected to exert some upward pressure on food budgets. The reduction in herds initiated by ranchers last summer in response to high feed costs, which led to deteriorating profit margins, is starting to show up in reduced quantities of meat being sent to the marketplace. Beef production, for example, was four percent higher in the first six months of 1984 than during the comparable period a year ago. By September, however, the year-over-year comparison probably turned negative—the first time this has happened in 18 months. In the first half of 1985 the Department of Agriculture expects beef supplies to tighten by as much as eight percent, year-over-year, suggesting higher prices.

CONSUMER PRICE INDEX AND SELECTED COMPONENTS
(PERCENT CHANGE FROM A YEAR AGO)



. . . Low Inflation . . .

To be sure, fluctuations in grain, meat, vegetable or dairy prices at the farm gate do not always translate into corresponding changes at the retail level. This is because prices of foods at the farm gate represent only about one-third of the bill at the grocery store. The difference is the "marketing bill", which includes processing, assembling, transportation and distribution of food products (Financial Digest—April 2, 1984). But although the marketing share varies greatly among different foods, it cushions—albeit in the short run—the wide fluctuations in agricultural prices. Reflecting the low rate of retail food price inflation in the economy during the

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past year, this marketing portion has shrunk slightly, thus contributing to the moderate rise in food prices.

Apparel and upkeep prices posted the largest monthly increase in August since March, 1980, as retailers raised prices for fall and winter wear more than usual. But despite August's 0.9 percent month-over-month jump, clothing prices are now only 1.5 percent higher than they were a year ago. However, early reports from retailers are indicating that a lot of August's price increases may not stick. Disappointed by the slower than anticipated traffic in their stores, many retailers have already started discounting their merchandise—sacrificing profit margins to prevent an unwanted buildup in inventories.

. . . Is Here To Stay

Although for most people medical care represents only a small portion of their yearly outlays, as the population ages—and the need for health care grows—medical costs are becoming of greater concern. It is therefore encouraging to know that the rise in health care costs in the year ending in August, 1984 was the smallest in more than 10 years. The greatest strides were achieved in slowing the soaring hospital room costs which as recently as 2½ years ago were increasing at a 17 percent rate, year-over-year. Now

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	10/3/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	162.359	– 2.471	+ .496
Loans to Depository Inst.	6.173	– .723	+ 4.760
Float	.499	+ .612	– .339
Total Reserve Bank Credit	181.147	+ .197	+ 8.293
Treasury Deposits with Federal Reserve Banks	7.742	– .668	– 4.584
Currency in Circulation	175.673	+ .291	+12.560
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.671	+ .835	+ 6.392
	9/26/84		
Member Bank Reserves:			
Total Reserves Held	37.660	– .462	+ 2.171
Excess (Deficiency)	.487	– .159	+ .038
Net Free Reserves	.040	– .222	+ .126

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (9/24/84)	547.0	+ 1.7‡	+ 5.7‡
M2 (August '84)	2,289.8	+ 5.6	+ 7.2
M3 (August '84)	2,867.6	+ 7.5	+ 9.6
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/5/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.70%	9.85%	10.00%
* Federal Agencies	10.49	10.88	11.53
* Project Notes—Taxfree (46% Taxable Equivalent)	11.48	11.30	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.97	11.15	11.60

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.50%	Nov.	10.75%
15- 29 days	10.25	Dec.	10.75
30- 59 days	10.63	Jan.	10.75
60- 89 days	10.50	Feb.	10.75
90-179 days	10.40	Mar.	10.75
180-239 days	10.30	Apr.	10.75
240-270 days	10.40		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	10.50%	Effective Rate	10.35%
90-120 days	10.60		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,645	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,639	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.1	10.1	9.4
Change in Consumer Prices (new series)*	Aug '84	6.0%	3.6%	4.8%
Change in Producer Prices*	Aug '84	– 1.2%	3.6%	4.8%
Civilian Employment (Thousands of Persons)†	Sep '84n	105,239	104,969	101,876
Unemployment as % of Civilian Labor Force†	Sep '84n	7.4%	7.5%	9.2%
Personal Income*	Aug '84	$ 3,043	$ 3,027	$ 2,760
Leading Indicators Composite Index (1967=100)†	Aug '84	164.5	163.7	158.9
Industrial Production Index (1967=100) †	Aug '84	166.2	165.8	151.8
Net Change in Consumer Installment Credit †	Jul '84	$ 7.11	$ 7.83	$ 3.71
U.S. Merchandise Trade Balance †	Aug '84	–$ 9.86	–$ 14.06	–$ 7.16
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Aug '84	1,537	1,763	1,873
New Construction Expenditures*	Aug '84n	$ 311.7	$ 311.2r	$ 278.0
Total Business Inventories †	Jul '84	$ 551.3	$ 546.8	$ 501.4
Total Business Sales †	Jul '84	$ 411.0	$ 414.1	$ 370.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

they are rising at less than half that pace.

Newly proposed regulations have changed both the cost and pricing structure of the health care industry, shifting the responsibility for cost control from the government to the hospital. Altering the reimbursement guidelines for Medicare-Medicaid patients from a percentage of costs incurred to a fixed amount per procedure has already resulted in tighter cost control, although this program will not be fully implemented until 1987. For example, after 23 years of average gains of about five percent per year, the number of hospital workers fell in the last 12 months by 50,000 or 1.6 percent. In addition, there should soon be severe price competition for traditional products where there is more than one supplier, as well as sharply improved demand for new products that can save time and money.

During the past 12 months, the decline in petroleum prices has moderated the rise in the overall rate of inflation. But although world and domestic supplies are plentiful—suggesting price stability in the near future—the biggest declines are probably behind us. The glut of gasoline in the United States—responsible for last summer's price decline—has been reduced as inventories are now down to about the same level as last year. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/19/84)	157,065	+ 86	+10,661
New York City (9/26/84)	34,924	– 389	+ 3,222
Commercial Paper (9/26/84)	227,127	+ 667	+50,289

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/84)	246,111	+ 1,680	+29,533
New York City (9/26/84)	64,119	– 1,255	+ 7,187

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/84)	626,178	+ 1,975	+95,132
New York City (9/26/84)	139,650	– 1,742	+22,270

Financial Markets

	Friday 10/5/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.56%	– .03	+ 1.66
180-Day Bills†	10.96	– .03	+ 1.66
Longest Bills†	11.33	+ .03	+ 1.65
Recent Issues:			
11⅞s 9/30/86	11.96	– .01	
13⅝s 6/30/88	12.35	– .20	
12⅝s 8/15/94	12.46	+ .09	
12½s 8/15/14	12.28	+ .16	
Municipals:			
Bond Buyer–20 Bond Index* (10/4/84)	10.34%	+ .19	+ .85
Blue List Total ($ Million)	$1,755	– $ 9	+ $ 352
30-Day Visible Supply ($ Million)	$3,694	– $411	+ $1,284
Total	$5,449	– $420	+ $1,636
Corporates:			
Moody's Aa Composite (10/4/84)	13.27%	+ .15	+ .84
30-Day Visible Supply ($ Million)	$1,455	+ $645	+ $ 80
Stocks:			
Dow-Jones Averages:			
Industrials	1,182.53	– 24.18	– 89.62
Transportation	515.03	– 2.58	– 71.67
Utilities	138.28	– .88	– .69
65 Stocks	467.36	– 6.68	– 39.01
Standard and Poor's 500 Stocks	162.68	– 3.42	– 8.12
N.Y.S.E. Composite Index	93.89	– 1.88	– 4.83
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,128	– 3,154	– 15,228

* 46% Taxable equivalent 19.15%.

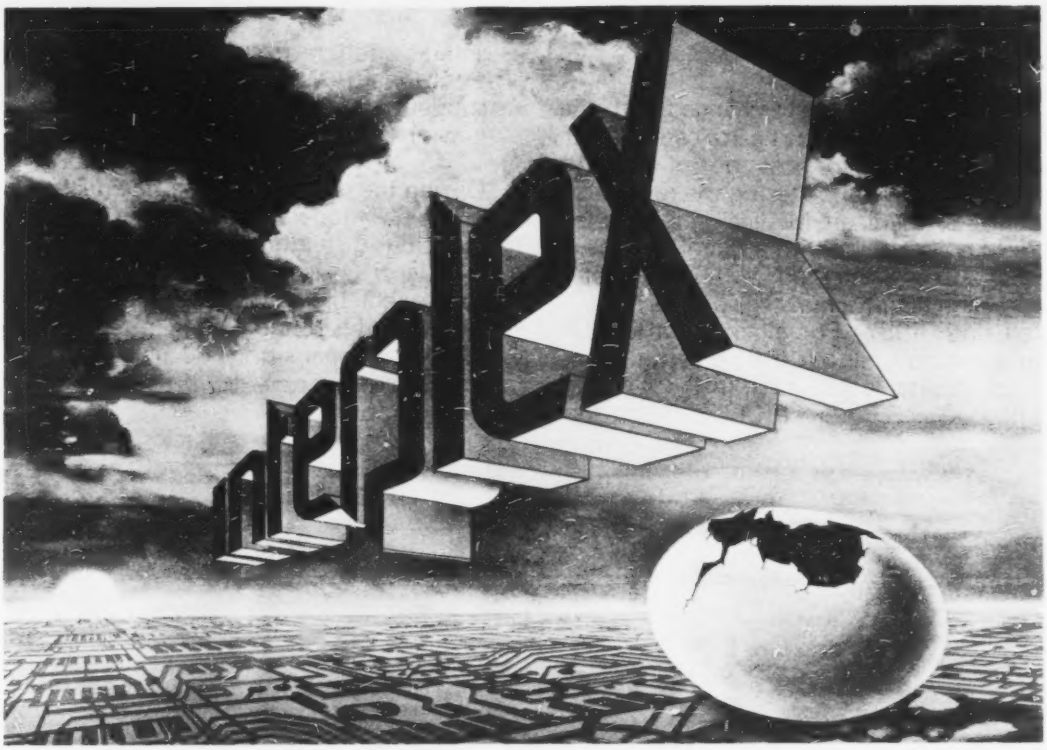
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/5/84	Week Ago
Overnight	10.38%	11.25%
1 month	10.94	11.06
3 month	11.38	11.38
6 month	11.56	11.56
1 year	11.88	11.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.60%	12.50%
Long Term (7 to 15 yrs.)	12.55	12.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/5/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01629	61.40
Canada	.7605	1.3150
Denmark	.09133	10.9490
France	.1076	9.2900
Germany	.3302	3.0282
Italy	.0005323	1878.70
Japan	.004053	246.73
Mexico	.005025	199.00
Netherlands	.2928	3.4158
Switzerland	.3986	2.5088
U.K.	1.2438	.8040



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